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TAGS: ECON EINV ETRD SF
SUBJECT: SOUTH AFRICA'S NEW INDUSTRIAL POLICY: A SNEAK
PREVIEW

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¶1. (U) This cable is sensitive but unclassified; not for
internet distribution.

¶2. (U) Summary: South Africa's new industrial policy will
aim to strengthen tradeable goods sectors and promote
manufactured exports, according to Deputy Minister of Trade
and Industry Rob Davies. The capital goods industry will
receive top priority, with other high priority sectors
possibly to include chemicals, agroprocessing, and the motor
industry. The scale of the policy is still uncertain and
much will depend on SAG willingness to fund schemes. End
Summary.

South Africa's New Industrial Policy

¶3. (U) South Africa's new industrial policy will aim to
strengthen tradeable goods sectors and promote manufactured
exports, according to Deputy Minister of Trade and Industry
Rob Davies. Davies outlined the new policy at an American
Chamber of Commerce meeting in Johannesburg on July 20. He
said that the oft-delayed Industrial Policy Framework and
Action Plan would be approved by the SAG cabinet during the
week of July 23 and publicized soon thereafter.

¶4. (U) Davies noted that South Africa's GDP is growing by 5
percent per year, the best performance in forty years. The
SAG is dissatisfied, however, that growth is not spread
evenly across the economy, with nontradeable sectors such as
construction and financial services outpacing potentially
labor-absorbing tradeable sectors such as manufacturing. At
the same time, the SAG has been impressed by the performance
of those few tradeable sectors, such as autos and steel,
which have received industrial policy-type support.

¶5. (U) These factors, Davies said, have convinced the SAG to
"refine and improve" its existing industrial policy programs.
"We have decided to act on a larger scale in key sectors.
We must increase the scale of our involvement," he told
AmCham.

Some Details

¶ 16. (U) Davies said the new industrial policy will take two forms. Industrial policy "writ small" will aim to strengthen existing industries by providing duty credits, tax breaks, training programs, special infrastructure, and other support.

In contrast, industrial policy "writ large" will aim to "get ahead of the market" through interventions designed to mobilize investments and develop key sectors. Davies said the SAG is just beginning to think about industrial policy writ large, but he indicated that the first sector likely to benefit from large-scale support would be the capital goods industry. This sector would be developed to support the SAG's USD 60 billion infrastructure expansion plans and thereafter to export to foreign markets. Other priority sectors could include chemicals, agroprocessing, and the motor industry.

¶ 17. (U) Davies said that sectoral policies would be designed and adopted only after close consultations with business, labor, and other stakeholders. The SAG would not issue directives to the private sector, he promised. The SAG would, however, insist on reciprocity: in exchange for support, firms would have to commit to specific levels of investment, job creation, and/or export performance. Firms that welsched on commitments could face "remedial action."

¶ 18. (U) Davies could not say how much money would be dedicated to new industrial programs, beyond noting that existing levels of financial support were certain to be increased. The South African Treasury, he said, would scrutinize sectoral programs to ensure that the country got value for its investment. "We will have to prioritize. We aren't going to divert funds to support activities that would happen anyway," he said.

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Comment

¶ 19. (SBU) The true scale of the new policy remains to be seen, and much will depend on SAG willingness to underwrite new and potentially expensive schemes. Davies' overview suggested that industrial interventions will be targeted and subject to review by the Finance Ministry, which generally respects markets and worries about the revenue implications of industrial policy. Other challenges will include the ability of the Department of Trade and Industry to persuade other SAG departments and parastatals to provide incentives, such as reduced telephone pricing for business outsourcing call centers.

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